

Message Text

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ACTION AF-10

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TO SECSTATE WASHDC 9006

C O N F I D E N T I A L SECTION 1 OF 2 LAGOS 7539/1

E.O. 11652: GDS
TAGS: EFIN, NI, ECON
SUBJECT: NIGER PRESSES FOR LARGE OVERSEAS LOAN BUT PROSPECTS
NOT BRIGHT

1. ACCENT IN THE FEDERAL MINISTRY OF FINANCE AND THROUGH MUCH OF ECONOMIC STRUCTURE OF FEDERAL GOVERNMENT IS ON OBTAINING OVERSEAS LOANS AS SOON AS POSSIBLE. TO FMG LEADERS THE REASONS ARE COMPELLING AND PAINFULLY OBVIOUS. SEVERE BUDGET SLASHES OF APRIL 1 COMBINED WITH LOWERED OIL REVENUES LEAVE A VERY LARGE GAP IN FUNDS TO CARRY OUT PROJECTS TO WHICH FMG IS COMMITTED. THE NEED FOR FUNDS I.E. "TO DO THE JOB" IS MADE URGENT BY FACT THAT CIVILIAN GOVERNMENT IS COMING BACK NEXT YEAR. GRIMNESS OF SITUATION IS INDICATED BY THE DISCOVERY IN NOVEMBER, 1977 THAT COMMITMENTS FOR ONGOING CAPITAL PROJECTS ALREADY EXCEEDED AVAILABLE FUNDS BY 300 PERCENT EMBASSY FINDING THAT TOP FINANCIAL OFFICIALS IN GOVERNMENT ARE PRINCIPALLY FOCUSING ON THIS PROBLEM AND TENDING TO DEFER OTHER MATTERS.

2. PROBLEM IS THAT FMG FACES A VERY TOUCH CHALLENGE IN GETTING WHAT IT WANTS. OUR CURRENT ESTIMATE IS THAT NIGERIA WILL NOT ATTRACT ALL OF THE FINANCING IT COVETS.
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THE TARGET AS STATED BY FMG SPOKESMEN IN THE PAST THREE MONTHS HAS VARIED BETWEEN \$1 AND \$1.5 BILLION. AT A MEETING WITH 16 BANKING AND FINANCIAL INSTITUTIONS IN NEW YORK ON APRIL 28, THE NIGERIAN DELEGATION TO THE BILATERAL ECONOMIC TALKS STATED THAT THE FMG WAS SEEKING THREE TRANCHES OF \$500 MILLION TO BE NEGOTIATED OVER THE NEXT 12 MONTHS. AT THE AFDB MEETING IN

LIBREVILLE IN EARLY MAY, FMG REPRESENTATIVES SPOKE OF SIGNING FOR \$1 BILLION BEFORE DECEMBER 31, 1978. AT A MAY 24 MEETING WITH CHASE NATIONAL IN LAGOS, THE FINANCE MINISTRY'S TOP BRASS SPOKE OF OBTAINING \$1.2 BILLION BY THE END OF 1978 WITH PAYBACK OVER 7 TO 8 YEARS. IN CONVERSTATIONS WITH OTHER AMERICAN BANKERS DURING THE FIRST HALF OF JUNE, THE MINISTRY'S PERMANENT SECRETARY AND SECRETARY FOR FINANCE HAVE SAID THEY MUST FIND \$1 BILLION IN THE NEXT SIX MONTHS. THE SAME OFFICIALS HAVE CONFIDED THAT THEY MUST GET THE MONEY AND CONCEDE THAT THEY WILL HAVE TO PAY A HIGHER INTEREST RATE THAN BEFORE. THE LAST DRAWDOWN ON THE \$1 BILLION LOAN SYNDICATED BY CHASE AND SIGNED IN JANUARY WAS MADE IN THE SUM OF \$250 MILLION ON MAY 26.

3. FAR FROM BEING A PASSIVE ENTITY IN A TIME OF STRESS, THE FMG HAS TAKEN A NUMBER OF VIGOROUS MEASURES IN ADDITION TO BUTTONHOLING FOREIGN BANKS. IN MAY IT STARTED SELLING DOLLAR BONDS IN LONDON AND NEW YORK, WITH THE EXPECTATION OF LATER ISSUING DM AND YEN BONDS. THE CENTRAL BANK HAS ALSO BEEN SELLING OVERSEAS HOLDINGS IN THE FORM OF FOREIGN GOVERNMENT BONDS, TREASURY STOCKS, ETC. BIDDERS ON LARGE PROJECTS, ESPECIALLY IN CONSTRUCTION AND TELECOMMUNICATIONS, ARE OBLIGED TO PRESENT AN ALREADY WORKED OUT FINANCING PLAN AS PART OF THE BID PACKAGE. THE GOVERNMENT HAS ALSO CALLED FOR A CONFIDENTIAL

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RAISING OF THE FOREIGN DEBT CEILING BY LAW TO 5 BILLION NAIRA. ANOTHER INPUT, GEARED STRICTLY TO SPECIFIC DEVELOPMENT PROJECTS, IS WORLD BANK FINANCING TOTALING \$500 MILLION OVER THE NEXT THREE YEARS. DISBURSEMENT IS LINKED TO APPROVAL OF INDIVIDUAL PROJECTS; \$90 MILLION IS IN THE PIPELINE FOR 1978 AND THE BALANCE SHOULD BE EXPENDED EQUALLY IN CY 79 AND 89.

4. ON JUNE 1 U.K. BELLOR, PRINCIPAL SECRETARY FOR FINANCE, WEARILY TOLD ECON COUNSELOR THAT PROSPECTS LOOKED DARK FOR ATTRACTING ALL OR MOST OF THE NEEDED FINANCING. IN ANOTHER MEETING WITH NEWLY APPOINTED MINFINANCE PERMANENT SECRETARY SHEHU MUSA ON JUNE 9, COUNSELOR ENCOUNTERED A ROSIER VIEW. MUSA STATED THAT THE FIRST BOSTON CORPORATION HAD AGAIN BEEN HIRED TO ACT AS CONSULTANT ON THE LOAN AND THAT MONEY GOALS HOPEFULLY COULD BE MET. ON THE SAME MORNING HE HAD RECEIVED A MESSAGE FROM BLYTH, EASTMAN & DILLON OFFERING ITS SERVICES, AND THIS HE REGARDED AS A VERY POSITIVE OMEN. THE EVIDENCE SO FAR, HOWEVER, FAVORS BELLO'S MORE GLOOMY PROGNOSIS. THERE ARE SEVERAL OBSTACLES:

A. FIRST, THE INTERNATIONAL BANKING COMMUNITY WAS SOURED BY THE \$1 BILLION PACKAGE SIGNED IN JANUARY. A NUMBER OF AMERICAN BANKING EXECUTIVES HAVE COMPLAINED TO THE EMBASSY THAT CHASE SET TOO LOW A MANAGEMENT FEE AND TOO LOW AN INTEREST RATE (LIBOR PLUS 1PERCENT). THEY ARE FURTHER PIQUED BY THE ALLEGED HASTE, ABRASIVE SELLING AND ARROGANCE OF CHASE AND THE OTHER SYNDICATE LEADERS IN HANDLING RECRUITMENT FOR THE LOAN. THEY ALSO ASSERT THAT THE NIGERIANS MADE A VERY SLOPPY PRESENTATION COMING UP WITH A LONG LAUNDRY LIST OF PROJECTS WITHOUT CAREFULLY RESEARCHED SUPPORTING DATA ("THEY DIDN'T EVEN ESTIMATE CASH FLOWS ON THEIR PROJECTS"). SOME OBSERVERS ALSO BELIEVE THAT THE FMG WOULD DO BETTER TO DISPENSE WITH SERVICES OF CONSULTANTS SUCH AS

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FIRST BOSTON CORP. AND DEAL DIRECTLY WITH MAJOR COMMERCIAL BANKS; THIS IS SUGGESTED TO SAVE MONEY AND GET BETTER INDIVIDUAL RESPONSE FROM THE BANKS.

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C O N F I D E N T I A L SECTION 2 OF 2 LAGOS 7539

B. NIGERIA IS VIEWED BY MANY IN WESTERN BANKING CIRCLES AS COMING ON TOO FAST AND TOO STRONG IN ITS EFFORTS TO RAISE MONEY. THE FMG'S MULTI-FACETED SURGE OF MONEY SEEKING ACTIVITY COMBINED WITH LOWER OIL EARNINGS CAPABILITY HAS PUT A MOOD OF CAUTION INTO LOAN DEPARTMENTS. THE SPEED WITH WHICH THE NIGERIANS ARE TRYING

TO ATTRACT "ENORMOUS SUMS IN RECORD TIME" HAVE SPURRED FOREIGN BANKERS TO WONDER WHETHER THE FMG IS IN WORSE FINANCIAL SHAPE THAN PREVIOUSLY SUSPECTED. AT BEST, MORE SECURE CONDITIONS WILL BE IMPOSED ON NIGERIA.

C. FOREIGN BANKS' LENDING CAPACITY IS LOWER THAN IT WAS A YEAR AGO. OBSERVERS POINT OUT THAT ANOTHER LOAN OF A BILLION DOLLARS MEANS THAT "ALL THE BIG BOYS" MUST BE IN ON THE TRANSACTION. BUT THAT THE LATTER FACE REAL CONSTRAINTS IN THEIR LENDING LIMITS. THE GERMANS ARE ALREADY HEAVILY COMMITTED IN NIGERIA IN THE IRON/STEEL SECTOR WITH ABOUT 800 MILLION DM. THE JAPANESE, NEVER PROMINENT IN CONTRIBUTING TO A FINANCIAL ISSUE IN AFRICA, WILL PRESUMABLY PLAY ONLY A SMALL ROLE OF ABOUT 50 MILLION DOLLARS. U.S. MONEY PROBABLY WILL BE RESTRAINED BY AN INCREASE IN LENDING OPPORTUNITIES AT HOME. EXISTING FRENCH AND BRITISH COMMITMENTS HERE AND ELSEWHERE MAY LIMIT THEIR OFFERINGS TO LESS
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THAN \$50 MILLION EACH.

5. COMMENT. THE FMG'S HARD-CHARGING QUEST FOR FUNDS IS TAKING ON THE NATURE OF A LONG, UPHILL CAMPAIGN. THE HASTILY CONCEIVED JOURNEY IN SEARCH OF EASIER FINANCIAL ARRANGEMENTS (LAGOS 1912) OBTAINED LITTLE IN THE WAY OF IMPROVED OR EXPANDED CREDITS. THE SEARCH GOES ON ALONG BROADER PATHS, BUT THE FINDINGS PROMISE TO BE LESS THAN GLOWING. APRIL'S RELATIVELY STRINGENT (DOWN 30 PERCENT) BUDGET AND THE WARINESS OF FOREIGN FINANCIAL ORGANIZATIONS APPEAR TO RAP OUT THE SAME MESSAGE: PUT YOUR HOUSE AND PRIORITIES IN ORDER AND SLOW DOWN. MORE PROOF IS NEEDED TO SHOW THAT THE MESSAGE IS REALLY BEING HEEDDED.
WYMAN

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